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Experiences of Developmental State in India and Taiwan

Abstract:

The aim of this article is to analyse the economic policies adopted by India and Taiwan since their independence. The study will also focus on the potential areas of economic cooperation, which could have mutual beneficial affect for the economies of both countries. This study is crucial because despite their initial differences as size of the population, culture and history. Both were ruled by colonial government i.e. India was under British rule, while Taiwan was under Japanese rule. However, in terms of similarities, both of these countries on the eve of independence had similar per capita income, wide spread poverty and colonial economy.

At present I find such study will be useful because Indian economy is still struggling in terms of low productivity, existence of huge poverty and unemployment. The volume of trade between Indian and Taiwan is very small and Taiwan's trade with India accounted only for 0.67% of its total trade and Taiwan's investment in India totalled only US$ 116 million. But a huge potential of cooperation lies between the two countries. Not only in Taiwan, but there exist a huge potential to expand trade because East Asian economies continue to grow despite the 2008 crisis and declining export markets in the West.

Key words: Economic development, India, Taiwan, economic liberalisation and trade.

Introduction

The purpose of this article is to examine the developmental policies adopted by India and Taiwan since their independence. The study will also focus on the potential areas of economic cooperation, which could have

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mutual beneficial affect for the economies of both countries. This study is important because despite their initial differences as size of the population, culture and history. Both were ruled by colonial government i.e. India was under British rule, while Taiwan was under Japanese rule (Siddiqui, 1990). However, in terms of similarities, both of these countries on the eve of independence had similar per capita income, wide spread poverty and a colonial economy. This study will be useful because the Indian economy is still struggling in terms of low productivity, existence of huge poverty and unemployment (Siddiqui, 2010a). Despite the adoption of neo-liberal reforms and high growth rates for the last twenty years, poverty and unemployment is still very high and inflow of foreign capital is slow and has not increased as was expected.

While on the other hand, Taiwan currently has a highly developed capitalist economy and ranks nineteenth largest in the world in purchasing power parity (PPP) per capita income. Inflation and unemployment have been lower; along with substantial trade surplus and it has the world's fourth largest foreign reserves. Taiwan has become a major investor in China, Vietnam, Thailand, Indonesia, the Philippines, and Malaysia in recent years. The country's agriculture contributes only 3% to GDP, down from 36% in 1950, and services contributed more than 72% to the economy in 2012. Traditional labour-intensive industries have been replaced with capital-intensive industries.

The question arises how Taiwan's economy has been transformed from an agriculture dominated low productive economy towards a highly productive and competitive industrial and service sector during the last six decades. How has this successful economic diversification been achieved?

Taiwan's economy for the last sixty years has grown around 7% annually and exports have grown even faster, which have provided the primary impetus for industrialization. Taiwan emerged as the top ranking Asian country in terms of outward capital investor and stocks. In this respect, Taiwan is close to Singapore (Siddiqui, 2010b), whilst it falls behind Hong Kong (Dent, 2003; World Bank, 1993). This is also known as Taiwan's economic miracle. The purpose of this article is to examine how this has happened.

I mean to say Taiwan has done very well in economic development and improved the living conditions of its inhabitants. Moreover, recently there seems to be a desire among the politicians and business communities in Taiwan to safeguard their interest by diversifying their investment in different countries. For instance, Hsiao Bi-Kim, a prominent Taiwanese MP said, "It is in Taiwan's strategic interests to promote India as an alternative investment centre to China" (The Economist, 2013). Similar emphasis was made by Yu Shyi-Kun, former Taiwanese Prime Minister who tried to persuade Taiwanese businesses to diversify away from China. It is emphasised that Indian economy is growing rapidly, which means a very good opportunity for Taiwanese investors, and India has also a well-developed IT sector so it may help Taiwan to complement its computer hardware industry.

It is true that India's exports have grown at a faster rate than the world average, thus India's share rose from 3% to 5% in the 1990s. But still, much lower than export growth in East Asian countries like Malaysia and Thailand more than doubled their share from 1987 to 1996 (Siddiqui, 2012). It will be interesting to look at the trade issue where a huge potential of cooperation lies between the two countries. In 2006 Taiwan's trade with India accounted only for 0.67% of its total trade. During the same year, Taiwan's investment in India totalled only US$ 116 million, compared to more than US$ 100 billion in China (The Economist, 2013). Not only Taiwan, because there exists a huge potential to expand trade since East Asian economies continue to grow despite the 2008 crisis in Western countries and declining export markets in the West. Here lie opportunities for Indian businesses to expand in the rapidly growing East Asian economies. For example, Taiwan has in recent years witnessed geographical fragmentation of the production activities in such a way that more skilled jobs are maintained domestically and lower skilled jobs exported to other countries such as China, Vietnam etc.

Between 1950 and 1980 India and Taiwan undertook different paths towards industrialisation. As a result, capital accumulation and productivity growth had affected employment growth and income generation in both Asian countries (Banerji and Riedel, 1980). India's economic policies launched in 1950s included self-reliance as the corner stone of its development policy. The country tried import substitution and to build key industries largely under public sector and reliance on import quotas, tariff and control of FDI.

The US aid was also important initially to stabilise post-war Taiwan, it constituted more than 30% of domestic investment from 1951 to 1962. Moreover, Taiwan has historically benefited from the migration well-educated, wealthy Chinese to settle in Taiwan and in 1949 when the Communist Party gained control in China, nearly two million Kuomintang (KMT) supporters fled to Taiwan. These factors, together with government domestic polices of encouraging businesses and universal primary education, helped to modernise industry and agriculture. The economy shifted from a agriculture dominated economy i.e. 32% of GDP in 1952 to an industry-oriented economy i.e. 47% of GDP in 1986.

Taiwan is a relatively small country - 23 million inhabitants and since 1950s relies heavily on international trade. After independence, Taiwan embarked on a policy to promote export, and trade was given special attention known as 'outward-oriented' approach of development. In the 1950s, Taiwan began with strategies to expand the industrial sector with emphasis towards labour intensive technologies such as clothing industries, production of toys etc. as a result, employment rose faster in this sector. This strategy was described as, "Labour absorption equation" and it was said that expansion of employment in the industrial sector is associated with capital accumulation and technical change (Banerji and Riedel, 1980).

Government control over the economy was relaxed and exporters received various incentives and as a result by mid-1960s export rose dramatically. Employment in sectors like food products, textiles, clothing, footwear, leather products, and transport equipment rose dramatically by the 1970s. The expansion of the industrial sector did help to absorb surplus labour from the rural sector and by the early 1970s unemployment became negligible in Taiwan. Various estimates claim that in the 1960s the increase of employment opportunities was 4.2% annually (Liu, 2002, Booth, 1999).

India clearly lags behind Taiwan in terms of economic growth with

per capita GDP only 3.4% that of Taiwan. Despite launching of neoliberal economic reforms in the early 1990s, which reduced barriers to trade and foreign investment, India was still unable to boost its export sector apart from IT. Since mid-1980s, the Indian government had taken proactive policies to promote software industries via export subsidies, tax holiday provisions, followed in 1988 with a software technology park scheme. Also in the 1990s the imports of inputs were allowed in duty free for exporting firms.

In 1991 India began to forge closer economic relations with East Asian countries. Since then trade with East Asia has increased and China has become the largest trading partner with India. Foreign capital investment from the region has increased as well, and Singapore has become the second largest source of FDI to India. A number of free trade agreements have been signed between India and East Asian countries (Rana and Wai-Mun, 2013). This growing economic cooperation is to be increased further with the East Asian countries because India cannot rely too much on Western markets as happened in earlier decades because the markets in developed countries have not recovered from 2007 financial crisis and growth of consumer demand has declined considerably and there is more emphasis on reducing net import demand as pointed out by the recent study by the UNCTAD (2013). Therefore, there is an urgent need to diversify the economy and trade, of course not to neglect domestic markets.

Economic Policies in India

At the eve of independence India inherited a colonial economy. It was largely agrarian and industries were limited to textiles, some steel chemicals, sugar and cement (Bagchi, 1976). Exports consisted of low value added items like tea, jute, cotton, spices and so on. Transformation of colonial economy could not occur with the spontaneous operation of the market. The state had to take the lead in the production of capital goods. The institutional reforms in agriculture enabled the country to increase agriculture production. Soon after independence India's first Prime Minister Jawaharlal Nehru advocated for a strong role of the public sector and land reforms to remove inequalities. During the 1950s and 1960s a number of land legislations were passed but did not succeed in breaking the land concentration. However, it did encourage large farmers to become capitalist farmers and rich tenants acquired ownership rights over land but hardly any relief for marginal farmers and agricultural labourers.

There is no doubt that during the 1950s and 1960s, the land reform success was significant in terms of abolition of large estates and absentee large land owners. However, the success of redistributing the surplus land, protection of tenancy, allocating land to the landless and preventing land alienation from tribal and other socially vulnerable land holders was much more limited. Moreover, a number of studies found that even modest gains are highly ephemeral on the ground. The rich farmers benefitted from numerous exceptions such as bogus charitable trusts or they continued to retain *benami* possession of lands through fraud and force. Therefore, it appears that land reforms were not fully implemented due to bureaucratic failures, but also of structural failures built into the political economy of the highly unequal society, where caste and class converged with political and government officials to subvert land reforms in India.

India's developmental path seems to be the result of several factors such as industrial and agriculture development policies which was launched after independence on the basis of 'import substitution' strategy. For this the First Five Year Plan (1951-56) began with focus on rural development and small and medium enterprises. However, the Second Five Year Plan (1956-61) was aimed to build heavy industries in capital goods sector, which were seen as risky and too expensive for private capital to venture. Soon the Plan ran into financial difficulties and was looking for assistance from international financial institutions. The capitalists found Import-Substitution-Industrialisation (ISI) profitable to exploit domestic markets as long as local demand kept on rising. However, such policy option ran into difficulty in the late 1960s as consumers market stagnated along with mounting unemployment and poverty. However, the critical role of the ISI was in kick-starting the build-up of technological capabilities in the manufacturing, power and engineering industries. It did help India to significantly upgrade the technical base of the workers in these sectors. The impasse was broken in the 1980s which allowed the economy to escape largely due to factors like increase in government spending, liberalisation of imports and finally state relied on commercial borrowings to finance

government spending. Such polices at least to certain extent contributed towards current account deficit crisis in 1991 and India had to seek IMF bailouts.

On agriculture front later on, in the mid-1960s with the adoption of 'Green Revolution', overall agricultural output was increased, which made India self-sufficient in food grains, but this strategy relied mainly on rich and large farmers to produce more, bypassing the small and agricultural labourers (Byres 1994). India's green revolution started in Punjab and other western regions in mid 1960s and spread to other parts of the country where supply of ground water and access to credit and subsidised fertilizer, electricity and diesel encouraged certain sections of farmers to invest in agriculture. However, by the mid-1980s, this technology largely ran out of steam. To sustain growth government expenditure on inputs and support prices of grains were increased. The government food subsidies to purchase grain at above market prices from the farmers, was less than 0.2% of the GDP in the 1980, but it has multiplied several times over the last three decades.

During the period 1950-1980, economic growth in India was slow, but no worse than the performance of most of other developing countries. Prior to 1980s Indian economy was characterised by slow growth, accompanied by high rate of population growth implied a very small rate of growth of per capita GDP. And also the growth performance was much less satisfactory compared to the East Asian economies during the same period. This was because of slow growth of domestic markets which was largely due to slow growth in real wages and slow growth in agricultural output. Therefore, agriculture development depending on public investment, which came to a dead end, along with the deepening crisis and an increased offensive by the international financial institutions. An analysis of the India's growth is provided by Kockhar et al (2006) divided into two periods namely, 1947 to the 1980 and 1980s to the present. Prior to 1980, India's development was driven by an 'import substitution' strategy. It aimed to promote domestic heavy industries led by the public sector, but private sector's contribution was seen as an important part of this polices.

Moreover, India has made a remarkable economic progress than it did in the past two hundred years in the matter of economic growth. In the period of 1901 to 1947, India's GDP grew at 0.9% per annum and per capita GDP by only 0.1% (Siddiqui, 2009). After independence, between 1950 and 1980 the GDP growth rate was 3.5% annually. And per capita GDP growth was 1.2% for the same period. The growth rate has picked up in 1980s and it was 5.2% for the period of 1981 to 1991, 5.9 per cent (for 1991 to 2001) and 7.6% (from 2001 to 2011). The GDP per capita grew at 3%, 4%, and 6% respectively for the corresponding years. The rate of growth of per capita GDP in 2001 to 2011 was 60 times the rate under colonial rule. Life expectancy in India was only 39 years in 1946 as against 66 in 2012. Similarly, infant mortality rate (per 1,000 live births) came down from 180 to 44 (Dreze and Sen, 2013).

India undertook economic reforms in 1991 after the financial crisis. It removed quantitative restrictions on imports and tariffs were dramatically reduced. In addition, exchange controls for current account transitions were eliminated. As a consequence, foreign capital inflows have increased from less than US$ 200 million in 1990 to US$ 6.5 billion in 2006. However, in 2006 foreign capital inflows to China has increased to US$ 80 billion. The slow growth of FDI in India is said to be due to lack of infrastructure, as Bardhan (2006:8) notes, "(a) physical (like roads, transportation, communication, power, ports irrigation, etc.); (b) social (particularly, health and education; (c) regulatory (in contract enforcement, starting a business etc.); and (d) financial (particularly banking sector). In India the service sector has grown rapidly, but share of employment is much lower, that of developing at similar levels of development. In addition, Indian economy today is more diversified than two decades ago".

Contrary to the neo-liberal claim that pro-market reforms led to India's unprecedented growth including IT sector (The Economist, 2004). In fact, Indian software industry is a clear example of prolonged and effective government intervention. The positive role government played in supporting the industry's development over the nearly past four decades. First of these intervention, for example, was the 1972 Software Export Scheme, initiated by the department of electronics aimed to establish an indigenous IT industry. The department provided 100% loans for the purchase of expensive computers. Again by mid-1980s software companies

were becoming aware the possibilities of service provision by remote delivery (via emerging advances in telecommunications technology) and thus greater export opportunities. Here too government provided firms necessary infrastructure. Software exports from Indian firms began after 1972, and rose to further mid-1980s, and foreign capital in IT sector only started coming in after 2000. Therefore, this claim is erroneous that neoliberal reforms paved the way for booming of IT industry in India.

The question arises why India lags so far behind Taiwan and China in manufacturing but able to do better in IT sector. Entrepreneurship along with government policies and skills all seems to have played an important role to India's IT success story. India's success appears to be in custom software development and IT enabled services, while Taiwan's is in chip design and related software. It is well known that Indian engineers based in US companies were among the first to outsource software services to India, thereby building the reputation and credibility of producers in the region like Bangalore. We find that overtime MNCs connections deepened and grown, which did manage to accelerate the upgrading of technical capabilities of the local firms as well.

Moreover, India's trade has undergone a significant change both in terms of composition of commodities and direction for the last decade. Its share in the world trade rose from 0.8% in 2002 to 2.13% in 2013. However, India's merchandise trade rose mainly due increase in imports than exports. As a consequence trade deficit accelerated trade with most countries with the world, but more than 60% of trade volume (in US$) is with 23 countries. In terms of trade volume, the top 10 countries in 2012-13 were: UAE, China, US, Saudi Arabia, Switzerland, Germany, Singapore, Hong Kong, Indonesia and Japan, accounting for 48% of total trade. Exports have become more diversified in recent years in terms of trading partners i.e. trade with the developing countries has increased. China becoming one of the top three trading partners, while in the past it was mainly developed countries. Since 2008 financial crisis India's exports with the developed countries has been hit, while exports to developing countries rose. About 58% of its export earnings come from four groups of commodities namely garments, gems and jewellery, engineering and petroleum products.

India's economy has grown sharply since the late 1980s, but hardly agriculture sector. Compared to East Asian economies, India's structural transformation has been slow, mainly due to low share of manufacturing sector in the economy. It has grown very slow and was unable to create enough jobs. In fact, the sharp increase growth in the economy since 1980s, did not lead acceleration in the agriculture sector. As a result, labour productivity in agriculture and non-agriculture sector has widened further. Share of agriculture to GDP was 60% in 1960, which declined to 32%, further declined to just 18% in 2010, while share of labour force in agriculture sector has declined from 72%, 66% to 55% respectively. The manufacturing share is around 20%, while the GDP share of service sector has grown to 55% in 2010 (Economic Survey, 2012-13).

In terms of employment, the rapid economic growth in the post-reform periods did not result in expansion of employment opportunities. Evidence from National Sample Survey data shows, that employment growth have declined from about 2.5% in 1983-93 to 1% in the period of 1993-2000. This is well below the rate of growth of the population. For the last two decades of rapid growth in India, has not been accompanied by a commensurate rise in employment, implying that its so-called benefits have not really trickled down (Kockhar et al, 2006). There is no doubt that government recent scheme such as rural job guarantee did play part in reducing rural poverty. However, according to India's Planning Commission, about 25.7% of people in rural areas were below poverty line and 13.7% in the urban areas. Government's poverty estimation is highly disputed, but still the number is still quite high. Moreover, hundreds of millions of people do not have adequate access to food, clean water and sanitation. India ranked 65 out of 79 nations on the last year's Global Hunger Index issued by the International Food Policy Research Institute. About half of the Children under the age of five are chronically malnourished. The United Nations' Food and Agriculture Organisation reported that an estimated 217 million people were undernourished in India in 2012. Therefore, it seems that simply looking GDP growth does not give us full information, but we need a multi-dimensional poverty index approach, similar to the Human Development Index used by the United Nations Development Programmes, which will be able to take into account the intensity of deprivation in terms

of living conditions, education, and health.

The rapid economic growth has not addressed the issue of food security and nutritional levels The National Family Health Survey (NFHS) conducted in 2005-06 finds 46% of children below three years are underweight, about one-third of India's population have their Body Mass Index (BMI) below normal. The average daily intake of protein, which is considered very important for people with vegetarian diets, has declined from 60.2 to 57 grams in rural areas between 1993-94 and 2004-2005.

The share of agriculture in the GDP has steadily shrunk from 42.3% in 1971 to merely 17.6% in 2012, while nearly 60% of the population continue to depend on agriculture sector for their livelihood. Public investment in agriculture declined from 3.4% of agricultural GDP during the 1976-77 to 2.6% during the 2005-06. Thousands of farmers have taken their lives, which indicate the nature of desperation on the agrarian front. Agriculture growth has lagged far behind the growth of services and manufacturing sector. The adoption of neo-liberal policies has reduced the amount of public investment in agriculture (Girdner and Siddiqui, 2008). For example, the cut backs in input subsidies and credit to small farmers along with the introduction of trade liberalisation caused agricultural prices to fall for some products. Agriculture production increased at an average rate of 2.2% annually between 1991 and 1997, compared to 3% during the pre-reform period of 1983-90. Moreover, the growth of food production has declined sharply and even below population growth. For example, during the 1979-90, the annual growth rate of food grain output was 2.4% per year, but after neo-liberal reforms between 1991 and 1997 this to average 1.4% per year (Siddiqui, 2009). As agriculture in India become more intensive and increasingly rely on purchased inputs, the labour advantage of farm families is necessarily neutralised by the disadvantage the small farmers face in access to credits and marketing. As agriculture diversifies towards horticulture and livestock products, it would require additional capital investment in such areas as cold storage, transportation etc.

The large discrepancy in India between agriculture contribution to GDP and to total employment appears to be the main source of rural-urban disparity in income. Average farm size is declining, while inputs such as fertilizers, pesticides, electricity, and diesel prices have risen in recent years. The access to education in rural areas is not widespread, especially to small farmers. It means that farmers and their children will be less equipped to exploit the opportunities that globalisation and market reforms have opened up for them in recent years. And finally with soil erosion, eroding soil fertility, water table depletion, the resource base of agriculture is steadily deteriorating in India.

Sarkar and Mehta (2010) did a study on income inequality in pre and post reform periods. According to their findings, "A clear picture emerges from the analysis that the labour market generates a difference in wages and income based on residence (rural and urban) employment status, educational levels, industrial groups and gender. However, in urban areas wages gap between secondary and tertiary (service) sector was widening probably reflecting the service oriented pattern of economic growth. The overall income inequality (gini-coefficient) demonstrated a continuous increase over the period with sharp increase during the post-reform period... The sectoral composition stated that the tertiary sector and construction has provided the bulk of the new opportunities for the growing labour force. The enhanced role of construction is a feature of the post-reform growth process". (Sarkar and Mehta, 2010: 54-55)

The Gini coefficient of distribution of land (in terms of operational holdings) in rural India was 0.62 in 2005. The Gini coefficient is higher partly because a much larger percentage of rural households are landless in India. In fact, in rural areas land is a major form of wealth for most people, therefore, equality of land distribution matter not just for equity and social justice but also for production efficiency. It is well established that in developing countries smaller farms are known to have higher productivity due to advantage of family labour. But as agriculture diversifies towards horticulture and livestock products such advantages becomes less relevant.

Moreover, in India in recent years the net capital inflows, when not adding reserves, have financed a reduction in savings. This could be one of the reasons that industrial growth in India has been very slow despite a high rate of GDP growth. Liberalised imports have simply absorbed into

the markets of domestic producers and hence restricted the output they produce. In India, capital inflows, when not adding to reserves, have not financed larger investment and they have financed growing imports at the expense of domestic production. For instance, during the 2007-08 the gross domestic savings was 36.8% of the GDP at market prices, which declined to 30.6% in 2011-12. Similarly the gross domestic capital formation was 38.1% of the GDP at market prices, which declined to 35% of the GDP at market prices in 2011-12 (Economic Survey, 2012-13).

Recently India witnessed ballooning of current account deficits. India's current account deficit raised from US$ 2.5 billion (0.4% of the GDP) in 2004-05 to a very high figure US$ 87.8 billion (4.8% of GDP) in 2012-13. This increase was due to the rapid increase of the deficit of the merchandise trade, which grew from US$ 33.7 billion in 2004-05 to US$ 191.7 billion in 2012-13. This dramatic growth of imports was partly due to gold and petroleum products. Government policy response consists of measures to attract foreign capital to finance growing current account deficit. It is also said that government cannot do much to bring down deficit in merchandise trade. It is claimed that growth of current account deficit is due to on-going global economic crisis, led to the decline in exports. Others argue that reversal of capital flows due to a tightening of monetary policy in US (i.e. putting forward a policy of "monetary stimulus" by the US Federal Reserve) might be discontinued. It led to decline of inflow of foreign capital, while at the same time capital outflow increased. (Ghose, 2013) However, it seems that India's inability to recognise that by increased flows of hot money cannot provide a long term solutions.

Economic Policies in Taiwan

During the period of Japanese rule, Taiwan displayed various characteristics of a colonial export economy. A high proportion of export and import was with Japan i.e. by 1938, 90% of Taiwanese exports went to Japan and the exports consisted of mainly food stuffs and raw materials (Booth, 1999). However, soon after independence, Taiwan undertook a number of measures which led to macroeconomic stability, including land reforms. The land reforms were designed to promote rapid agriculture development, increase food production and to address rural inequality (Cheng, 1961).

Later on, government invested heavily on education and infrastructure and these policy reforms did play a positive role to place Taiwan on the path of export-intensive development. The government tried to balance the development between agriculture and industry. The transfer of resources could not have been possible without well-conceived public investments to develop agriculture sector, so that it could meet the growing needs of the industries.

Agriculture has served as a strong foundation for Taiwan's economic miracle. After independence, the government announced a long-term development strategy of "developing industry through agriculture, and developing agriculture through industry". Thus, agriculture became the foundation for Taiwan's economic development, while also promoting growth industry and commerce (Cheng, 1961). In 1951, agricultural production accounted for 35.8% of its GDP. Today, agriculture only comprises about 2.6% of Taiwan's GDP or about US$ 1 billion.

Initial conditions were established with regards to egalitarian distribution of income, which were achieved through radical land reforms undertaken in the 1950s. The reforms were to achieve income equality in rural areas (Cheng, 1961). Taiwan did not follow colonial legacy but reversed it. For example, after land reforms were carried out, about 48% of the agricultural households received land and as a result agriculture production increased 5% annually between 1953 and 1965. Prior to the 1950 income and land inequality in Taiwan were lowest compare to South Asian countries. As Kim (2009) has noted, "Gini-coefficient for land distribution as of 1960 are 0.47 for Taiwan and 0.20 for South Korea. The sweeping land reforms in countries cut them half completely from the colonial legacy and created the socio-economic conditions of income equality that was favourable for economic development" (Kim, 2009:393). Both in Taiwan and South Korea Gini coefficient of income and land distribution was low that means the relatively equal distribution of income and wealth was critical to insulating the government from sectional pressure groups.

Beside land reforms, the influx of migrants from the mainland China displaced and disempowered the indigenous elites in Taiwan. Kim (2009)

stated that "geopolitics meant that South Korea and Taiwan received enormous foreign aid from USA, which enabled them to initiate their industrial transformation" (Kim, 2009:386). To take advantage of plentiful supply of labour, the government subsidised small industries, particularly textiles. Initially government offered low-interest loans to exporters and tariffs and import control were applied to protect domestic industries. A number of studies found that Taiwan's government did not practice the kind of "carrot and Stick", as South Korean government pursued during the early years of its industrialisation. Taiwan had a slight different strategy, as Wade (1990) finds, for example, "business people... understand that export performance is one of the main standards by which the government respond to them, one of the principal criteria by which unexpected contingencies are resolved" (Wade, 1990:189).

Taiwan's developmental polices moved from import-substitution in the 1950s to export-led growth in 1960s. Development of foreign trade and exports helped to absorb excess labour. Like South Korea, Taiwan moved from labour-intensive manufactures, such as textiles and toys, into heavy capital-intensive industry in the late 1970s, and then to advanced electronics in the 1980s-1990s. By the 1980s, the economy was becoming increasingly open and the government enterprises were privatised. Technological development led to the establishment of the Hsinchu Science Park in 1981. Investments in China increased rapidly, meaning less dependent on the US market. In the 1980s-1990s, the economy grew at an annual rate of 7.52%, and the service sector became the largest sector at 51.67%, surpassing the industrial sector and becoming a major source of the economy's growth (Liu, 2002).

Taiwan has recovered quickly from the global financial crisis of 2007-2010, and its economy has been growing steadily. Its economy faced a downturn in 2009 due to a heavy reliance on exports which in turn made it vulnerable to world markets. In response, the government launched a US$ 5.6 billion economic stimulus package (3% of its GDP), provided financial incentives for businesses, and introduced tax breaks. The stimulus package focused on infrastructure development, small and medium-sized businesses, tax breaks for new investors. The economy has since slowly recovered; by early 2011, Taiwan's unemployment rate had fallen to a two-year low of 4%.

Structural changes have taken place during the last decades and industrial output has gradually decreased from accounting for over half of Taiwan's GDP in 1986 to just 31% in 2002. Industries have gradually moved to capital and technology-intensive industries from more labour-intensive industries, with electronics and information technology accounting for 35% of the industrial structure. Industry in Taiwan primarily consists of many small and medium-sized enterprises (SMEs) with fewer large enterprises.

During the Cold War period Taiwan pursued a neo-mercantilist approach, especially towards international trade. However, it has modified later on to suit the changing situation i.e. government has removed trade barriers, while at the same time enhancing competitiveness of its industries as a part of the government's twin strategy of 'liberalisation and internationalisation'. The government offered provision for tax benefits, funds and technical assistance towards the 'furtherance of industrial upgrading and betterment of economic development' (Article 1, cited in Dent, 2003:474). Through National Economic Development Planning, the government targeted top 10 industries for further assistance such as aerospace, chemicals, pharmaceuticals, IT, electronics, semi-conductor, medical equipment etc. (Dent, 2003).

It will be useful to discuss the government role in skills and training development in Taiwan. In Taiwan educational progress under Japanese rule was impressive, particularly at the primary levels i.e. in 1943, nearly 81% boys and 61% girls of school age were enrolled in school. After 1950, the government built upon this favourable colonial legacy further. By the end of 1960s the government was nearly spending nearly 3% of GDP on education. While Taiwan model of development cannot be imported whole sale to India. Taiwanese example lends credence to task of government taking strategic approach to skills and education development. It is important to understand how East Asian developmental states, such as Taiwan has brought about a transformation of skills, training and education to meet their economic transformation. We find that in Taiwan, the government commitment to education has played an important role to

build efficient bureaucracy and also to meet the requirement of economy at various stages of its development. Taiwan's government has through subsidies and other forms of assistance, systematically directed private investments (Green etal1999). In fact, the conscious emulation of Japanese Meiji wars education system by Taiwan via its primary and middle school systems such as drawing female labour force, which had been so important for textile, clothing, footwear and electronic industries.

Taiwan's economy is dominated by small and medium-sized enterprises. Due to this, the government has ensured sufficient supply of vocational education. In 1960, only 40% of the high school pupils were in vocational schools and it rose to 57% in 1970. The government coordinated the supply of educated and skilled personal in order to meet the demand of the growing economy. It's Council for Economic Planning and Development (CEPD) did help to chart out a strategy to ensure that it meets the objectives of economic plans. During the 1990s CEPD was being involved in arranging for the overseas training of highly qualified scientist and engineers.

International trade has important role towards high growth rates during the last half-century. Taiwan's economy remains export-oriented as a result it is vulnerable to downturns in the world economy. The total value of trade increased over fivefold in the 1960s, nearly tenfold in the 1970s, and doubled again in the 1980s. The 1990s saw a more modest, slightly less than twofold, growth. Export composition changed from predominantly agricultural commodities to industrial goods (now 98%). The electronics sector is Taiwan's most important industrial export sector and is the largest recipient of U.S. investment. Taiwan became a member of the World Trade Organization (WTO) as Separate Customs Territory of Taiwan in 2002.

By contrast, better economic performance in East Asian economies enabled them to carry on neoliberal reforms even after democratisation. After democratisation the heavy reliance on export sector continued and the social groups benefitted with, supported trade liberalisation because domestic protection against imports may result in retaliation from its trading partners, which may ultimately hurt the exports. Therefore, the export sectors were seen as ally during the bilateral trade negotiations by the US in reduction in tariff and non-tariff barriers. The main pressure was US super 301 trade negotiation in 1988 and that led to launching of four years tariff reduction plan. In 1992-95, Taiwan again faced huge pressure from the US to carry out further trade liberalisation.

During the 1960s Taiwan had more developed economy than South Korea by most of the criterion. In 1961, for example, Taiwan's per capita income was twice of South Korea's (US$ 150 against US$ 80), but in contrast to this by 1983 per capita income was still 50% larger than that of South Korea (US$ 2677 VS US$ 1884). Taiwan's saving and investment rates have been higher and its industrial structure more advanced. I mean to say that Taiwan had a lower share of agriculture in GDP and a higher share of manufacturing sector than South Korea. However, later on by late 1980s South Korea had preceded Taiwan and moved into more developed high technology production.

The US has always been an important trading partner for Taiwan and trade flows between Taiwan and US amounted to US$ 55 billion in 2007. Taiwan's export to US rose from US$ 29.1 billion in 2005 to US$ 32.2 billion in 2007. The US has been the largest source of foreign investment in Taiwan from 1952 onwards and currently its total investment amounted to nearly US$ 15 billion, which is 22% of Taiwan's total foreign investment. Over the same time period total investment from Taiwan to US was about US$ 8.5 billion.

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In its efforts to upgrade and catch-up with the US and Japan R&D consortia was formed in the 1980s. Later on in the 1990s institutions were created to encourage firms to cooperate in raising their technological levels

so that they can compete successfully with firms in developed countries. In advanced form of 'technological learning' in which the most significant role was played by small and medium firms in Taiwan, rather than big firms as happened in South Korea. The SMEs entrepreneurial flexibility has proved to be the key to their success in Taiwan. Many Taiwanese companies are globally competitive in high technology areas such as semiconductors. In recent years, Taiwan has successfully diversified its trade markets, cutting its share of exports to the United States from 49% in 1984 to 20% in 2002. Taiwan's dependence on the United States should continue to decrease as its exports to Southeast Asia and mainland China grow and its efforts to develop European markets produce results. Taiwan joined WTO in 2002, but before that the country had prepared to meet challenges. For example, Taiwan's average normal tariff rate was 6% in 2001, the same level as the developed countries. Taiwan's accession to the WTO and its desire to become an Asia-Pacific "regional operations centre" are spurring further economic liberalization.

Taiwan is the world's largest supplier of contract computer chip manufacturing (foundry services) and is a leading LCD panel manufacturer, DRAM computer memory, networking equipment, and consumer electronics designer and manufacturer. Textiles are another major industrial export sector, though of declining importance due to labour shortages, increasing overhead costs, land prices, and environmental protection. Imports are dominated by raw materials and capital goods, which account for more than 90% of the total. Taiwan imports most of its energy needs. The United States is Taiwan's third largest trading partner, taking 11.4% of Taiwanese exports and supplying 10% of its imports. China has recently become Taiwan's largest import and export partner. In 2010, China accounted for 28% of Taiwan's exports and 13.2% of imports (excluding Hong Kong). This figure is growing rapidly as both economies become ever more interdependent. Imports from China consist mostly of agricultural and industrial raw materials. Exports to the United States are mainly electronics and consumer goods.

Taiwan's information technology industry has played an important role in the worldwide IT market over the last 20 years. In 1960, the electronics industry in Taiwan was virtually non-existent. However, with the government's focus on development of expertise with high technology, along with marketing and management knowledge to establish its own industries, companies such as TSMC and UMC were established. The industry used its industrial resources and product management experience to cooperate closely with major international suppliers to become the research and development hub of the Asia-Pacific region. The structure of the industry in Taiwan includes a handful of companies at the top along with many small and medium-sized enterprises (SMEs) which account for 85% of industrial output

During the late 1970s trade surplus rose in Taiwan's favour, this led to bilateral talk between US and Taiwan. The reason behind this was said to be due to rapid expansion of exports from Taiwan to US. The overall export value raised eleven fold from US$ 5.3 billion in 1975 to US$ 66.3 billion in 1990. Overall trade surplus rose from only US$ 0.2 billion to US$ 16 billion during the same period and also 43% of Taiwan's exports were destined to US in 1990 (Huang, 2009).

Japan is the second trading partner for Taiwan, whom it had trade deficit. In 2007 trade between two countries was US$ 62.5 billion. During this period Taiwan exported US$ 16.3 billion, while imported from Japan worth US$ 46.2 billion, prominent importer sectors were mainly information technology, electronic and automotive and Taiwan's high technology export sector rely heavily on imports from Japan. Japan is also an important investor of capital in Taiwan. Japan's total investment in Taiwan is nearly US$ 18 billion, while Taiwan's was very small i.e. US$ 723.3 billion i.e. only 2% of Taiwan's total outward FDI went to Japan and mainly in food related industries.

South Korea is another important trading partner for Taiwan with annual trade worth US$ 22.1 billion. Taiwan has huge deficit. South Korea exports comprised of electronics, petro-chemicals and information technology products. In 2007 total South Korea's investment in Taiwan was US$ 664 million and amount to just 1% of total foreign investment in Taiwan.

Taiwan's trade with China is growing rapidly with just only US$ 8 billion in 1991 has risen to more than $ 116 billion in 2007. Taiwan has a

huge trade surplus with China of US$ 63 billion. Taiwan exports to China consists of electrical goods, optical instruments, mechanical appliances, plastic and plastic products, chemical and iron and steel copper and synthetic fabrics etc., while Taiwan imports raw materials, computers, machines etc. According to official figures Taiwan total investment in China US$ 47 billion, unofficial figures are very high i.e. over US$ 100 billion.

Taiwan's electronic industry has maintained smaller-scale approach than South Korea. Taiwan's largest electronic company called Tatung, which is much smaller than South Korea's Samsung. The high rate of domestic savings and overseas Chinese capital provided low costs capital in Taiwan. The overseas Chinese also contributed towards the establishment of semi-conductor industries, which was then seen as high risks and technology was not freely available. Of course, government role as facilitator was important for its ultimate success. Overseas Chinese began to establish small semiconductor companies in Taiwan such as Vitelic, Mosel and Quasel. Taiwan electronic companies respond swiftly to global opportunities. The electronic industry in the country is dominated by the small and medium sized firms, which makes it very flexible. These firms use relatively labour intensive techniques and often relying on female staff members (Ranis, 1995).

Policy Implications

A number of studies have found that a strong government role is a pre-condition for effective market liberalisation and East Asian countries are seen as most recent examples of government intervention to coordinate markets (Kim 2009; Woo-Cummings, 1999; Wade, 1990). Contrary to the mainstream economists believe, the market do not operate in a political, institutional or social vacuum, which means government role is crucial to ensure better outcomes. As Polanyi (1994) emphasised that the development of markets and market relations depend on various forms of government intervention. He finds, "the road to free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism" (Polanyi, 1994:140). The relationship between government and market has been also highlighted by

Gershenkron (1962). His study focuses on economic backwardness and role of the government in mobilising the resources in order to catch-up with the developed countries.

During the 1990s the neoliberal reforms have swept through developing countries due to macroeconomic crisis (Rodrik, 1995). Some researcher finds that in developing countries, an authoritarian regime can adopt more important policy reforms than a democratic regime because of perceived weaknesses inherent in mainly democratic institutions (Haggard, 1995). In the absence of the autonomy and pressures from social groups, the pursuit of policy reforms would be difficult, because the dominant social groups may obstruct policy reforms. It is well established now that in East Asia the adaptation neoliberal policies have been markedly different to that of developed countries. Although many East Asian countries launched liberalisation since early 1980s but they were broadly incorporated into government developmental model. For instance, Taiwan's government has re-engineered the earlier developmental role of the government regarding industries.

In under-developed economies, the question of land ownership is crucial not only to increase food production and rural equity but also in the transformation of agrarian economy towards manufacturing. It is suggested inequality in the distribution of land ownership adversely affects the promotion of human capital and may repercussions on the pace and nature of the transition from an agriculture to an industrial economy (Galor, et al 2009). The conflict of interest can arise between landed aristocracy, capitalists and the people. The capitalists strive for an educated workforce, while such policies may pose a threat and consider mass education may encourage mobility of rural work force. As long as the rural aristocrats affect policy decisions thereby education reforms, inequality in land ownership is seen as hurdle for expansion in human-capital and thereby slowing the process of industrialisation and growth. The inequalities in the land ownership among Latin American countries are reflected in variations in their investment in human capital. For example, Argentina, Chile, Uruguay, and Costa Rica where inequality in land distribution was less pronounced, government invested more in education sector, whereas Brazil, Guatemala, and El Salvador had more unequal land distribution

and large plantations, which led to lower investment in education sector (Siddiqui, 1998).

Also among the successful economies of the East Asia land reforms in the 1950s were followed by significant increase in investment in education sector. In South Korea, land reform in 1950 coincided with rapid increase in expenditure on education. During this period South Korea allocated 8% of the government expenditure on education, which increased to 9.2% in 1957 and 14.9% in 1960s and more than 15% thereafter.

Like Japan and South Korea, Taiwan also launched land reform in 1950 and rents were reduced tenants became landowners. Prior to land reforms 57% rural families were full or part owners, while 43% were tenants and agricultural workers. But by 1960, due to implementation of land reform, the share of full or part land owners rose to 81%, while share of tenants declined to 19% (Cheng, 1961). At the same time, government undertook various educational reforms. The number of schools rose by 5% annually between 1950 and 1970, while number of students grew by 6% annually for the same period. In 1950 Taiwan was primarily agriculture based economy with a GDP per capita (measured in 1990 US$) of $ 936 lagged in per capita well behind many developing countries such as Colombia ($ 2153) and Mexico ($ 2365), sharing with these countries a legacy of huge inequality in land distribution. In contrast to Latin American countries, the implementation of land reforms in Taiwan and other East countries affected their growth trajectory significantly, leading them to successful economic growth stories in the post war period. By 1998, Taiwan had per capita income levels 150% higher than Colombia and 100% higher than Mexico (Maddison, 2001).

Conclusion

This study has examined the two Asian development experiences, that of India and Taiwan. There is no doubt that the successful case of Taiwan offers no panacea for a large populated country like India, but perhaps some food for thought. The study finds Taiwan had witnessed remarkable achievements over the last six decades in areas such as the development of small and medium enterprises, entrepreneurship, export sector, agriculture, education and vocation training. Soon after independence, the government took a number of measures, which had a long term developmental effect on the country such as: radical land reforms, public investment in education, vocational training and skill development, investment in infrastructure, agriculture development and support for industries. The first step towards industrialization was land reforms, a crucial step in modernizing the economy, as it gave land rights to the former tenants who could invest capital and work with their family labour. Not to undervalue the benefits of trade but other crucial factors such as government's role, history, culture, and international environment played their part. As a result, the outcomes appear to be different, not only in achieving higher growth rates but also in overall economic development of the people.

Once again, the transformation of Taiwan's economy cannot be understood without reference to the larger geopolitical framework, although US aid was less important in the 1970, however, it did play an important role in the early post-war period. Previous studies have identified a number of positive features including government policies which have played a crucial role to achieve phenomenal growth in the country. It is well known that the Taiwanese government displayed exceptional commitment to implement industrial policy to achieve its stated socio-economic target.

On the other hand in India, as I have examined earlier, the six decades of developmental outcomes was far from satisfactory. Of course, there are various factors responsible for this, but the crux of the matter is that land reforms did not make any dent in the rural power structure. Still in India, ownership and control of land remains central to economic and social well-being in the rural areas. The rural elites continue to hold power and also making sure that any welfare targeted to the less well-off were bound to be unsuccessful. About 60% of India's population still depends on agriculture and related activities for its livelihood. For rural equity in India, the government need to implement land ceilings along with increased public investment in agriculture, focusing on reviving sustainable technologies for small-holding and rain-fed farming, to develop land and conserve water and strengthen rural credit.

Moreover, recent substantial deceleration in GDP annual growth from more than 8% to 5% is a matter of concern. Therefore, India cannot

rely just on performance of the service sector but higher growth rates in both the manufacturing and agriculture sectors is crucial towards bringing down levels of unemployment.

I find Taiwan has done very well in economic development i.e. not only achieved higher growth but also removed unemployment and poverty, and currently is amongst the top capital exporter country in East Asia. Trade liberalisation has become the most important topic among the mainstream economists since 1980s. They also advocate in favour of a greater role of the market in the allocation of resources and definitely Taiwan's extraordinary economic changes for the last six decades provide us an interesting example. Some studies suggest that Taiwan's post-war development was made possible due to the high degree of autonomy enjoyed by the bureaucracy (Booth, 1999; Ranis, 1995). The tightly knit links between business and bureaucrats in East Asia were very different than in India, where elite fragmentation in an extremely heterogeneous society along with pressures of popular electoral politics makes it more complicated.

In Taiwan, the export sector has expanded rapidly for the last five decades. In 1960, Taiwan and India were not too far apart in terms of industrial structure, indices of human development, living conditions or per capita income. However, Taiwan's per capita income in 2011 reached about US$ 15000 annually, whilst India's was only just US$ 485. Most academics now agree that entrepreneurship, government policies and export sector played an important role towards this success. At present, all Taiwan's drive rests on manufactured high value products. India's huge unemployment problems cannot be solved by simply emulating Taiwanese experience, but it is always worth learning from others experiences.

I find the volume of trade between Indian and Taiwan is very small and Taiwan's trade with India accounted only for 0.67% of its total trade and Taiwan's investment in India totalled only US$ 116 million. But a huge potential of cooperation lies between the two countries. Not only in Taiwan, but there exists a huge potential to expand trade because East Asian economies continue to grow despite the 2008 crisis and declining export markets in the West. And here lies opportunities for Indian businesses both as exporters and also to invite investors of rapidly growing East Asian economies into India.

Moreover, to protect foreign firms, India also passed the TRIPS law to accommodate WTO demands at the time of accession to WTO in 1999. Huge potential exists to invest in India, especially in manufacturing and service sectors. India has a huge resource of educated youth and skilled labour ready to be employed gainfully. Taiwanese investors and businesses could find huge potential opportunities in India.

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